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Americans Cut Back Sharply on Spending

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Strong evidence is emerging that consumer spending, a bulwark against recession over the last year even as energy prices surged and the housing market sputtered, has begun to slow sharply at every level of the American economy, from the working class to the wealthy.

The abrupt pullback raises the possibility that the country may be experiencing a rare decline in personal consumption, not just a slower rate of growth. Such a decline would be the first since 1991, and it would almost certainly push the entire economy into a recession in the middle of an election year.

There are mounting anecdotal signs that beginning in December Americans cut back significantly on personal consumption, which accounts for 70 percent of the economy.

A raft of consumer companies — high-end stores like Nordstrom and Tiffany, and middle-of-the-road ones like Target and J. C. Penney — reported a pronounced slowdown in growth last month, and in several cases an outright drop in business.

American Express said that starting in early December the growth in the rate of spending by its 52 million cardholders, a generally affluent group of consumers, fell 3 percentage points, from 13 percent to 10 percent, the first slowdown since the 2001 recession.

And consumer confidence, an important barometer of economic health, has plunged. Andrew Kohut, president of the Pew Research Center, says consumer satisfaction with the economy has reached a 15-year low, according to the firm’s polling.

Even wealthier consumers, who were seen as invulnerable to rising gasoline prices and falling home values, are feeling the squeeze.

“People are clearly concerned that we are headed into a recession,” said Stephen I. Sadove, the chief executive of Saks Fifth Avenue, the upscale department store whose runaway growth throughout much of the year slowed markedly in December.

Gia Trumpler, 37, a travel consultant who lives in Manhattan, shops at luxury chains like Saks. But she is trimming costs where she can by bringing lunch to work from home, rather than eating out. “Everything just feels more expensive to me now,” she said, including the cost of heating her apartment this winter.

There are plenty of recession naysayers. Average hourly wages and salaries have not fallen, and some economists argue that unless — or until — that happens, consumer spending will hold up despite widespread economic unease. According to these economists, what happened in December was a temporary blip.

“Incomes have managed to hold up,” said Chris Varvares, president of Macroeconomic Advisers, an economic forecasting firm, who added that the data to date did not support the view that a recession was inevitable.

Even in tough economic times Americans rarely reduce their consumption, preferring instead to slow the growth in their spending. Since 1980, they have cut spending in only five quarters — a total of 15 months — most of them in the depths of a recession. The 2001 recession passed without a cutback in consumer spending.

Only once before, in 1980, did consumer spending fall during a presidential election year, helping Ronald Reagan in his campaign against Jimmy Carter, the Democratic incumbent.

Official statistics do not yet show that consumer spending has dropped, but they do suggest that in late 2007, it slowed in areas like automobiles, furniture, building materials and health care, said Mark M. Zandi, chief economist at Moody’s Economy.com.

Fresh evidence of a pullback is pouring in from many quarters as Americans confront the triple threats of higher energy costs, falling home prices and a volatile stock market.

Perhaps the strongest barometer over the last 30 days is the performance of the country’s big chain stores. December turned out to be a blood bath for retailers at every rung on the economic ladder, with sales for the month growing at the slowest rate in seven years.

Sales at stores open at least a year, a crucial yardstick in retailing, plunged by 11 percent at Kohl’s and 7.9 percent at Macy’s, compared with last year.

Chains that cater to the middle and upper classes, which have benefited from years of trading up — when customers splurge on select expensive products — struggled as well. Coach, the leather goods maker, said sales of its popular handbags had become sluggish, prompting the company to issue rare coupons to drum up business.

“This is the real deal — consumers are slowing down across the spectrum,” said David Schick, a retail analyst at Stifel Nicolaus.

But it is the trouble at the highest reaches of retailing that has economists most worried about a recession. Over the last year, even as low-wage and middle-income consumers have cut back, the wealthy have spent freely, keeping high-end chains insulated from the economic turbulence.

That started to change in December, as shoppers held off on buying $300 designer shoes and $500 dresses. For example, store sales fell 4 percent at Nordstrom, the high-end department store.

And Tiffany, the upscale jeweler, said the number of purchases at its stores dropped last month. In an interview, its chief executive, Michael J. Kowalski, said that even if the wealthy remain so at least on paper, their economic anxiety is taking a toll.

“It’s a reaction to the general economic uncertainty everyone is feeling,” he said. “There are housing price declines and financial market instability. There is a lot of caution out there, and it’s reflected in jewelry sales.”

At the same time, the number of overdue payments on American Express cards is surging, the company said — and this among well-heeled cardholders who charge up to $12,000 a year, on average, on each card. American Express has called some cardholders in the last few weeks to ask if they will have trouble paying their bills.

“We are seeing a correlation with housing prices,” said Michael O’Neill, a spokesman for American Express. “The falloff in spending is everywhere in the country, but it is greatest in those areas like south Florida and California, where home prices have fallen the most.”

The big exception is gasoline. American Express and the Consumer Federation of America say that consumers are buying just as many gallons as ever, but paying more for them, and that has forced cutbacks in other purchases. Gasoline prices usually drop after the summer driving season, but this year they shot up, from $2.85 a gallon on average in September to $3.07 in December and $3.15 in the first week of January.

A similar trend is evident in the cost of natural gas, electricity and home heating oil. “We built these big houses in the suburbs, which need a lot of energy to stay warm and a car to go shopping,” said Stephen Brobeck, executive director of the Consumer Federation. “And we can’t change that quickly.”

The impact of rising gasoline prices “is just profound on middle- and lower-income families,” said Mr. Kohut of the Pew center. “Our surveys are showing one of the lowest levels of satisfaction with national conditions in any recent presidential election year. You have to go back to 1992 to get a lower number of people saying the national economy is excellent or good.”

The nation was recovering from recession that year. Consumer spending had contracted in two separate quarters in 1991, and while economic growth was gradually accelerating as Bill Clinton and George H. W. Bush sought the presidency, the Clinton camp famously posted a sign in its campaign war room proclaiming, “It’s the economy, stupid.”

There are some bright spots now in consumer spending. Sales of sports gear and electronic gadgets — particularly G.P.S. navigation devices and flat-panel television sets — have risen over the last three months. To Stephen Baker, vice president for industry analysis at the research firm NPD Group, that suggests there is still enough purchasing power for people to buy what they really want.

“We probably would not have seen strong sales for electronics products that people really want if the overriding issue was economic,” Mr. Baker said.

But not everyone is splurging. Jinal Shah, 22, a college senior in New York, said she wanted to buy the popular Nintendo Wii video game system as a gift for herself this holiday season, but had second thoughts because of the $250 price tag. She ended up not purchasing it.

“You have to make choices,” she said. “I get the Wii, or I go out more. I am just much more aware of the tradeoff now.”